Saxon Petroleum Inc.

1995

Annual

Report

Saxon Petroleum Inc.

Saxon Petroleum Inc. is a Calgary-based, junior exploration company with expanding oil and gas operations in western Canada.

Saxon commenced active operations in March, 1990. The Company's principal reserves and producing properties are located in four core project areas in western and northwestern Alberta at Pembina, Bigoray, Nipisi and Kaybob South.

Saxon will continue to pursue growth primarily through a balanced program of acquisitions, development and exploration. The Company's reserves and production profile at December, 1995, consisted of 26% natural gas and 74% crude oil and natural gas liquids.

Saxon's common shares trade on the Alberta Stock Exchange under the symbol "SXN".

Annual Meeting of Shareholders

Shareholders are encouraged to attend Saxon's Annual General Meeting of Shareholders, which will be held on May 29, 1996 at 3:00 p.m. at The 400 Club, Main Dining Room, 710 - 4th Avenue S.W., Calgary, Alberta. Those unable to attend are requested to complete and return the Proxy Form.

Contents

Abbreviations

ARTC	Alberta Royalty Tax Credit
Bbls	barrels
MBbls	thousands of barrels
BOPD	barrels of oil per day
Mcf	thousand cubic feet
MMcf	million cubic feet
Bcf	billion cubic feet
BOE	barrel of oil equivalent
/d	per day
MBOE	thousand barrels of oil equivalent
MMBTU	millions of British Thermal Units
NGL	natural gas liquid

Natural gas is equated to oil on the basis of:

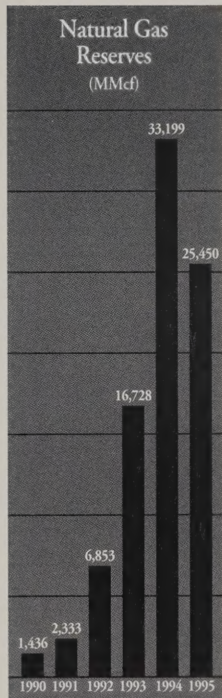
10 Mcf = 1 barrel of oil equivalent

Highlights

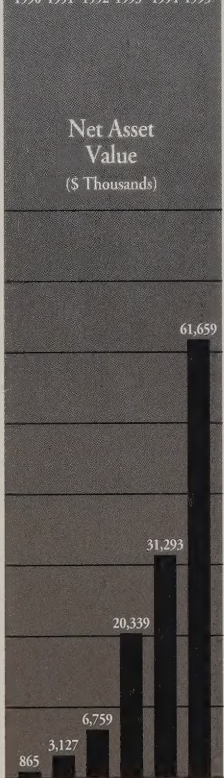

Oil Production
(Bbls/d)
12
191
241
434
1,018
1,379
1990 1991 1992 1993 1994 1995

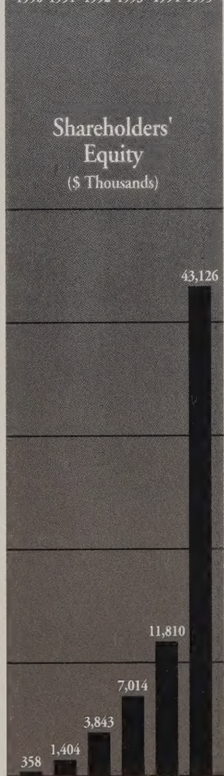

Natural Gas Production
(Mcf/d)
70
926
1,440
2,433
7,143
7,838
1990 1991 1992 1993 1994 1995

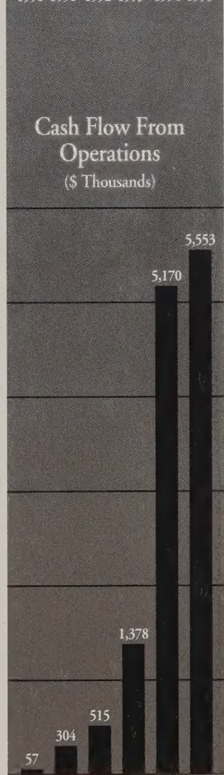

Oil & NGL Reserves
(MBbls)
79
842
967
3,541
6,880
7,272
1990 1991 1992 1993 1994 1995


Natural Gas Reserves
(MMcf)
1,436
2,333
6,853
16,728
33,199
25,450
1990 1991 1992 1993 1994 1995


Production Revenue
($ Thousands)
172
1,615
2,278
4,929
12,545
14,013


Net Asset Value
($ Thousands)
865
3,127
6,759
20,339
31,293
61,659


Shareholders' Equity
($ Thousands)
358
1,404
3,843
7,014
11,810
43,126


Cash Flow From Operations
($ Thousands)
57
304
515
1,378
5,170
5,553

We are pleased to present the 1995 Annual Report of Saxon Petroleum Inc.

In a year when significantly decreased gas prices and a general scarcity of funding had pronounced effects on the petroleum industry in general, Saxon saw mixed results. Although some of the Company's objectives were not met, others were exceeded.

During 1995, part of the Company's focus was on efforts to restructure debt and find new sources of equity. Saxon was successful in these efforts, and will continue to strengthen its balance sheet. The Company also focused on its core business of exploration and development, establishing record levels of revenue and cash flow, and is exiting the year well-positioned to improve on 1995 results.

Review of 1995

Operational activities in 1995 included participating in the drilling of 26 wells resulting in 23 oil wells, 2 gas wells and 1 dry hole for a success ratio of 96%. As well, the Company performed successful workovers and re-entries on wells in two areas resulting in increased production and reserves. Saxon increased its land holdings through acquisitions at its core project areas in the Bigoray and Nipisi areas of Alberta.

Financial restructuring initiatives undertaken by the Company in 1995 include retiring its prepaid contracts for a gain of $1.1 million, and refinancing with conventional bank debt. In addition, Saxon obtained an infusion of $31.7 million of equity from Forest Oil Corporation which acquired a controlling interest in Saxon through a series of transactions occurring on October 25, 1995, and on December 20, 1995.

After the sale of marketable securities on January 31, 1996, Saxon's debt to equity ratio dropped from 1.8 to 0.2, and its funded debt to cash flow ratio dropped from 4.0 to 1.3. This resulted in a much stronger balance sheet and made available more capital for 1996 programs.

Highlights of 1995 Operations

- *Continued development of the Company's light oil reserves at Pembina*
- *Successful re-entries at Bigoray*
- *Successful exploration efforts at Kaybob South*
- *Positive test results at Nipisi*
- *Continued success of infill program at Eagle Lake*

Financial Highlights of 1995

- *Petroleum and natural gas sales of $14.0 million, compared to $12.6 million in 1994*
- *Cash flow from operations of $5.6 million, compared to $5.2 million in 1994*
- *Earnings of $0.02 million, compared to $1.1 million in 1994*
- *Sale of properties which realized $2.2 million*
- *Infusion of new equity, which realized $1.5 million cash, $15.2 million in marketable securities and a $15 million investment in the preferred shares of a Canadian private oil and gas company in exchange for 40.8 million common shares, 12.3 million Non-Voting shares and 15.5 million Series A Preferred shares*

Operational Highlights of 1995

- *Average daily oil production increased 35% to 1,379 Bbls/d*
- *Average daily natural gas production increased 10% to 7,838 Mcf/d*
- *Proved and probable oil reserves increased 5.8% to 7,272 MBbls*
- *Proved and probable natural gas reserves decreased 23% to 25.5 Bcf*
- *Production averaged 2,163 BOE/d*

Strategy and Philosophy

Saxon remains convinced that operational control, high working interests, core project areas and long life reserves are keys to success. To date, our asset base has developed from a strategy of acquiring underdeveloped properties which exhibited potential for upgrading. In keeping with this strategy, the Company's emphasis has shifted from shallow gas to deeper targets with larger reserves and longer reserve life indices. Consistent with this philosophy, Saxon sold its interest in shallow gas reserves in Swalwell during the year.

The Saxon Team

The Company would like to take this opportunity to thank, for their contributions to Saxon, Daryl E. Birnie, E. Diane Johnson and Gene R. Vennard, all of whom resigned from the Company's Board of Directors during 1995. Saxon would also like to welcome to the Board Bulent A. Berilgen, Robert S. Boswell and David H. Keyte, all of Forest Oil Corporation. Subsequent to year-end, Ken Skea was appointed Vice President - Engineering and Jim Dowhaniuk was appointed Exploration Manager.

Saxon thanks the Officers, Directors, employees and field contractors of Saxon Petroleum Inc. for their continued efforts to build a strong, growing and profitable company.

Outlook for 1996

In 1996, cash flow is forecast at $9.0 million, with cash flow per share at $0.10 based on the benchmark WTI price for oil of $18.00 U.S. per barrel which translates to a wellhead price of $22.16, and an average natural gas price of $1.25/Mcf at the plant gate. Production is forecast to be 1,800 BOPD of oil and natural gas liquids and 8.0 MMcf/d of natural gas.

Saxon's improved balance sheet will enable it to reinvest more cash flow into its exploration and development program while maintaining sufficient bank lines of credit for strategic acquisitions. The size and financial stability of the Company should provide Saxon with the ability to attract additional capital in 1996.

On behalf of the Board of Directors

Hugh J Davis

Hugh J. Davis
Chairman of the Board

G A Tarrant

Glen A. Tarrant
President and Chief Executive Officer

Land Holdings

During 1995, Saxon acquired 2,240 gross acres (1,080 net) of land at Bigoray, Alberta, and 640 gross acres (480 net) at Nipisi, Alberta for a total of 2,880 gross acres (1,560 net) acquired in 1995 at a total cost of $82,600. Saxon's average working interest in land acquired in 1995 is 54%. These acquisitions bring the Company's total undeveloped land position to 17,160 gross acres (8,816 net) compared to 16,800 gross acres (8,885 net) in 1994.

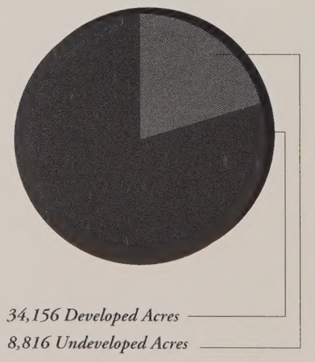
The Company has budgeted $360,000 for land acquisition in 1996.

In addition to the Alberta land holdings summarized in the table below, the Company also holds approximately 18,960 gross acres (1,115 net) in the Eagle Lake/Dodsland area of Saskatchewan.

Land Holdings At December 31, 1995 *(Acres)*

	Undeveloped		Developed		Total	
Alberta	Gross	Net	Gross	Net	Gross	Net
Pembina	—	—	10,720	8,411	10,720	8,411
Bigoray	6,080	4,074	8,640	5,446	14,720	9,520
Kaybob	6,720	2,464	7,040	2,688	13,760	5,152
Nipisi	1,120	720	800	560	1,920	1,280
Other	3,240	1,558	52,900	17,051	56,140	18,609
Total	17,160	8,816	80,100	34,156	97,260	42,972

Land Holdings
Total 42,972 Net Acres



Drilling Activity

In 1995, Saxon participated at an average interest of 26% in the drilling of 26 wells resulting in 2 gas wells, 23 oil wells and 1 dry hole, for a success ratio of 96%. Saxon was the Operator of 6 of these wells with an average interest of 96%, resulting in 3 oil wells, 2 gas wells and 1 dry hole.

By comparison, Saxon participated at an average interest of 13% in the drilling of 106 wells during 1994, resulting in 9 gas wells, 95 oil wells and 2 dry holes, for a success ratio of 98%.

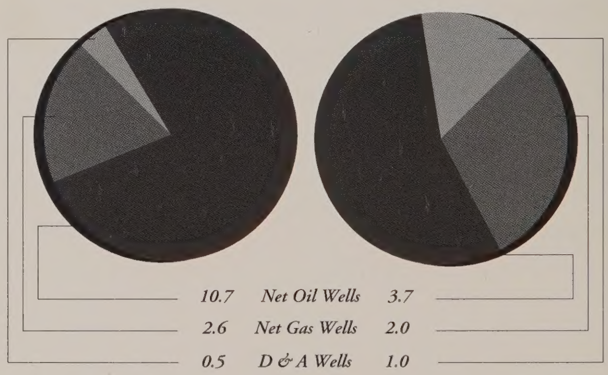
Drilling Results

	Exploratory		Development		Total	
	Gross	Net	Gross	Net	Gross	Net
1994						
Gas	—	—	9	2.6	9	2.6
Oil	—	—	95	10.7	95	10.7
D & A	2	0.5	—	—	2	0.5
Total	2	0.5	104	13.3	106	13.8
1995						
Gas	**1**	**1.0**	**1**	**1.0**	**2**	**2.0**
Oil	**—**	**—**	**23**	**3.7**	**23**	**3.7**
D & A	**—**	**—**	**1**	**1.0**	**1**	**1.0**
Total	**1**	**1.0**	**25**	**5.7**	**26**	**6.7**

"Gross Wells" means the number of wells in which Saxon had a working interest.
"Net Wells" means the sum of the individual working interests in all gross wells in which Saxon had a working interest.

1994
Total 13.8 Net Wells

1995
Total 6.7 Net Wells

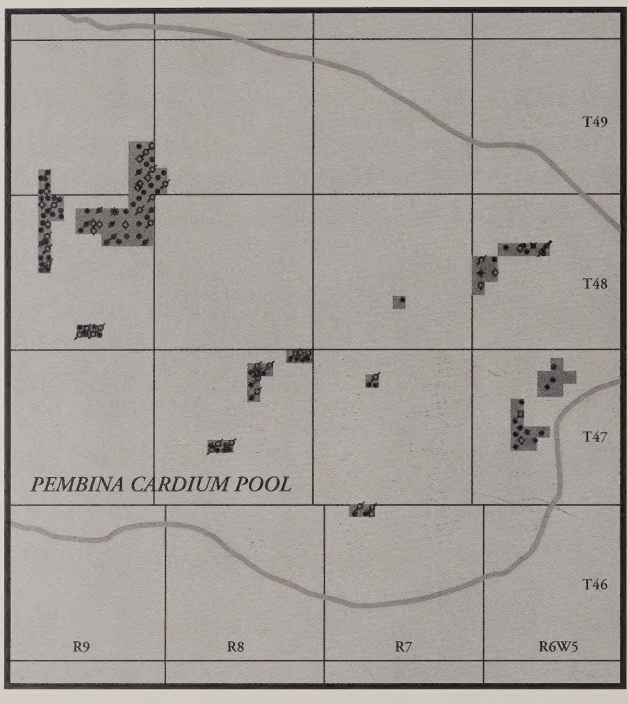


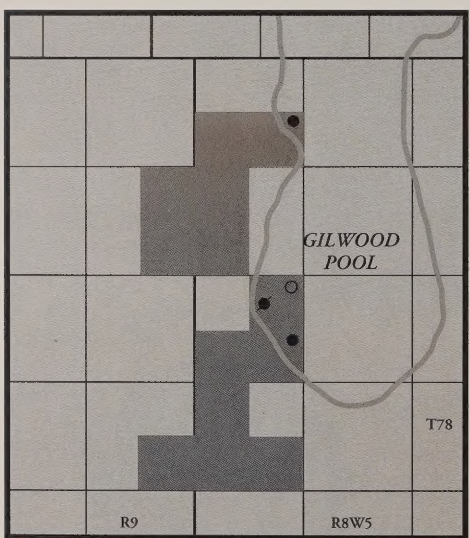
Core Project Activity

Saxon explores and develops oil and natural gas properties in central Alberta and western Saskatchewan. The Company acts as operator of most of its properties in order to control costs, determine exploration and development pace and achieve higher netbacks per BOE. The corporate strategy has been to acquire, through acquisitions and farmins, large working interests in properties that are underdeveloped and offer considerable potential for infill drilling, enhanced recovery and improved economy of scale. Until 1994, Saxon focused on developing shallow gas reserves in southern Alberta to provide immediate cash flow. This focus has since shifted to exploration for deeper, longer term reserves in western and northwestern Alberta at Pembina, Bigoray, Kaybob South and Nipisi.

During 1995, the Company participated in 26 wells (6.7 net), resulting in 3.7 net oil wells, 2.0 net gas wells and 1.0 net abandonment.

Saxon's primary objectives for 1995 were to establish new core areas at Nipisi and Kaybob South, and to increase production levels by development drilling at Pembina and Eagle Lake. In 1996, the Company's efforts will be focused on Pembina and on taking advantage of the considerable upside potential at Bigoray.





Pembina, Alberta

Description:

Saxon owns several producing oil properties in the Pembina area of central Alberta. Production is from the Cardium formation, with wells averaging 30 BOPD of light, 38° API gravity oil. These wells will continue to produce at that rate for a number of years. Wells in the area produce into several centralized batteries operated by the Company.

1995 Activity:

During 1995, Saxon drilled two 100% working interest development oil wells. Production from these wells is 60 BOPD. Two existing wells were restimulated, resulting in incremental production averaging 70 BOPD. The Company has a 100% working interest in these wells.

Planned Activity for 1996:

Based on the success of the restimulation program, Saxon will concentrate on refracturing wells in 1996. The Company has budgeted for eight refracs on Pembina lands. Development drilling will continue as required to reactivate the waterflood. The Company is currently negotiating to acquire the majority interest and operatorship of an adjoining Cardium unit. If successful, one horizontal infill well and four refracs are planned for this unit.

Nipisi, Alberta

Description:

Saxon concluded three separate farmin agreements during the last quarter of 1994 and the first quarter of 1995 to establish an acreage position in the Nipisi area. The Company also drilled three wells during that period. Production in this area is from the Gilwood formation.

1995 Activity:

Testing of the three wells resulted in one oil producer, which currently produces 100 BOPD, one shut-in oil well and one suspended well that can be used as an injection well. Saxon increased its land position in 1995 by acquiring 640 gross acres (480 net).

Planned Activity for 1996:

The shut in well will be equipped and tied-in late in 1996 at an anticipated average rate of 100 BOPD.

Bigoray, Alberta

Description:

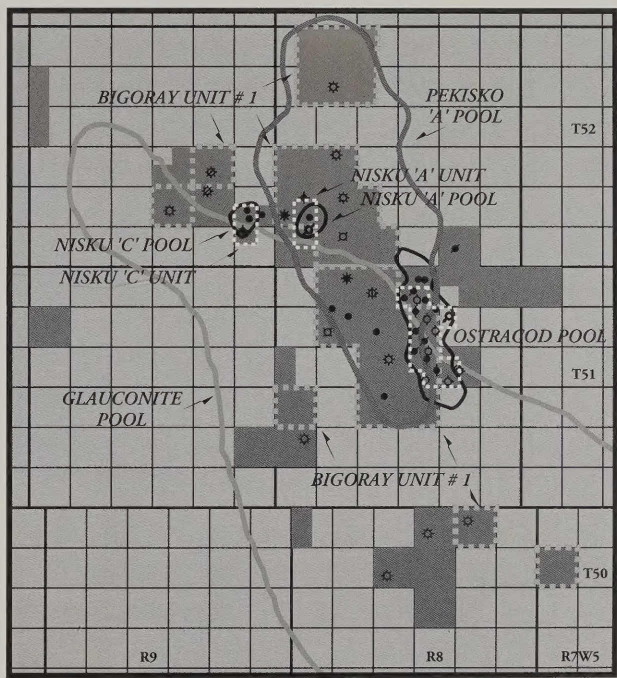
In 1994, Saxon acquired varying working interests in 15,040 gross acres (9,892 net) in the Bigoray area of west central Alberta. The acquisition included interests in four separate units, three oil and one gas. One oil unit is now operated by the Company with an 80% working interest. The area offers multi-zone potential for excellent quality oil and high deliverability, liquid-rich gas reserves. Substantial potential is recognized in undeveloped lands included in the acquisition.

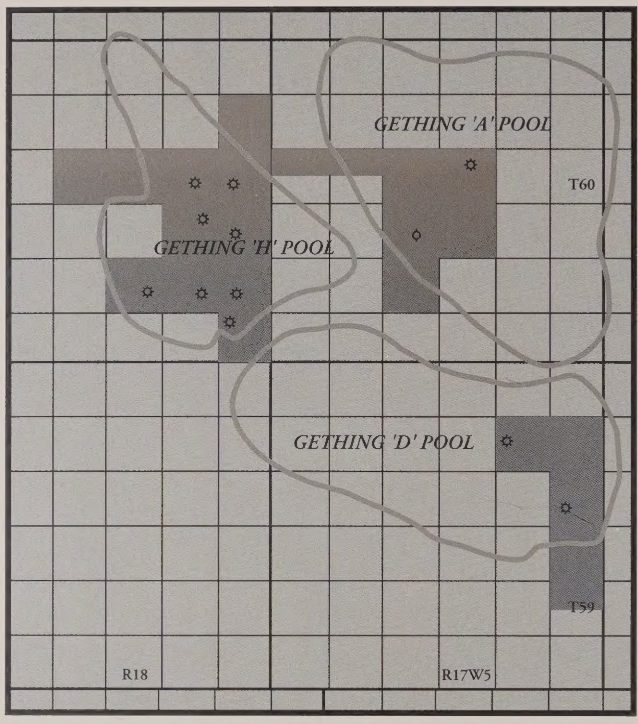
1995 Activity:

In 1995, Saxon increased its land holdings in the Bigoray area by acquiring 2,240 gross acres (1,080 net). The Company did not drill any wells at Bigoray in 1995. However, two successful re-entries were undertaken, resulting in one shut-in oil well and one gas well. The gas well produces 750 Mcf/d and 12 Bbls/d NGL, and added 1.4 Bcf of reserves net to Saxon. The Company's average working interest in the wells is 54%.

Planned Activity for 1996:

The re-entries and reservoir studies have reduced the risk in further work at Bigoray. Saxon plans to drill and operate seven wells in 1996, as well as to undertake related facility projects. The Company will continue to augment its land holdings in this core area.





Kaybob South, Alberta

Description:

In 1994, Saxon acquired working interests ranging from 30% to 100% in 17 sections of land and associated production in the Kaybob area. This area produces gas from the Mannville formation.

1995 Activity:

During 1995, Saxon drilled two successful, 100% working interest, gas wells in the Kaybob area. Both wells were tested and are currently shut-in, waiting on tie-in during 1996.

Planned Activity for 1996:

The Company plans to stimulate and tie-in at least one of the wells in 1996.

Eagle Lake/Dodsland, Saskatchewan

Description:

In the Dodsland area of western Saskatchewan, Saxon retains a 4.8% working interest in Eagle Lake which produces light, excellent quality crude oil. Activity in this area consists primarily of infill drilling and restimulation programs which have increased gross production from 760 BOPD to over 2,200 BOPD.

1995 Activity:

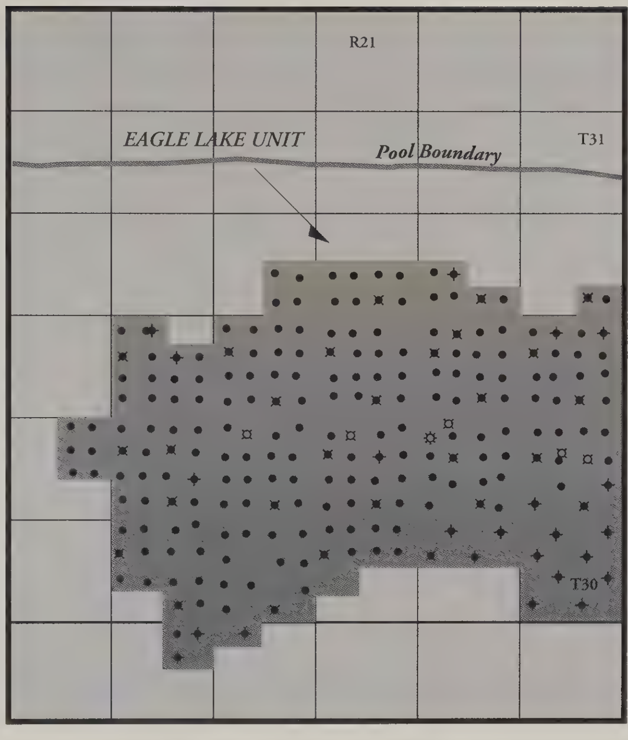
Twenty infill wells (1.0 net) were drilled at Eagle Lake in 1995.

Planned Activity for 1996:

The operator of Eagle Lake plans to drill 30 infill wells (1.4 net to Saxon) starting in the second quarter of 1996.

Other Areas

Saxon sold its interests in the Swalwell, Alberta area effective September 30, 1995. The Company realized $2.2 million from the sale and applied the proceeds to long term debt. The Company will continue to dispose of assets outside its core areas during 1996.



Wells on Production

The Company holds an interest in 840 gross (178 net) wells of which 510 (96 net) are oil wells; 437 (87 net) are producing. Of the 99 (16 net) natural gas wells capable of production in which the Company owns an interest, 95 (13 net) are currently on production.

Oil and Natural Gas Reserves

Saxon's crude oil and natural gas reserves have been evaluated up to December 31, 1995 by Fekete Associates Inc. ("Fekete"). Crude oil and NGL's increased 6% to 7.3 MMBbls while natural gas reserves decreased by 23% to 25.5 Bcf as the result of the sale of Swalwell. Reserve additions and revisions replaced 1995 production by 1.6 times.

The present value of this future revenue stream discounted at 15% is $50.7 million, a 2% increase over December 31, 1994.

Evaluations of the present worth value of future net revenues set forth in the tables are stated prior to any provision for income taxes and overhead costs and are dependent upon many factors, a major one of which is the forecast of future commodity prices. It should not be assumed that the discounted value of estimated future net revenues is representative of the fair market value of the estimated petroleum and natural gas reserves.

Oil, Natural Gas Liquids and Natural Gas Reserves Based On Escalated Price Assumptions

	Oil and NGL's *(MBbls)*		Sales Gas (2) *(MMcf)*	
	Gross (1)	Net (1)	Gross (1)	Net (1)
Proved producing	3,532	3,017	12,600	9,712
Proved non-producing	1,529	1,324	8,154	6,351
Total proved	5,061	4,341	20,754	16,063
Probable	2,210	1,993	4,696	3,905
Proved and probable	7,271	6,334	25,450	19,968

(1) "Gross" reserves are defined as the total remaining recoverable reserves owned by the Company before deduction of any royalties. "Net" reserves are defined as those accruing to the Company after all interests owned by others, including Crown and Freehold royalties, have been deducted.
(2) Sales Gas is defined as natural gas reserves remaining after deducting surface losses due to process shrinkage and natural gas used as lease fuel.

Oil and Natural Gas Reference Price Assumptions

	Edmonton Light Oil ($/Bbl)	Plant Gate Spot Natural Gas ($/Mcf)
1996	23.50	1.25
1997	24.80	1.50
1998	26.15	1.70
1999	27.45	1.85
2000	28.75	2.00

escalated at 4% per year after the year 2000

Present Worth Value of Estimated Future Cash Flows Based on Escalated Price Assumptions *(Before Tax)*

($ 000s)	Undiscounted	10%	15%	20%
Proved producing	62,278	34,298	28,387	24,340
Proved non-producing	26,980	13,114	9,643	7,211
Total proved	89,258	47,412	38,030	31,551
Probable	62,967	13,895	8,598	5,771
Proved and probable	152,225	61,307	46,628	37,322
ARTC	6,469	4,584	4,023	3,592
Total	158,694	65,891	50,651	40,914

Reconciliation of Changes in Reserves

	Oil and Liquids *(MBbls)*			Natural Gas *(MMcf)*			Barrels of Oil Equivalent *(MBOE)*		
	Proved	Probable	Total	Proved	Probable	Total	Proved	Probable	Total
December 31, 1994	4,850	2,022	6,872	24,294	8,769	33,063	7,279	2,899	10,178
Acquisitions and discoveries	357	163	520	3,295	489	3,784	686	212	898
Dispositions	(200)	—	(200)	(4,324)	(3,264)	(7,588)	(632)	(327)	(959)
Production	(503)	—	(503)	(2,861)	—	(2,861)	(789)	—	(789)
Revisions	557	25	582	350	(1,298)	(948)	592	(104)	488
December 31, 1995	**5,061**	**2,210**	**7,271**	**20,754**	**4,696**	**25,450**	**7,136**	**2,680**	**9,816**

Reserve Life Index

Saxon's 1995 reserve life index, which relates year-end proved reserves to that year's production, was 10.1 years for oil, a decrease of 3 years compared to 1994, and 7.3 years for natural gas, a decrease of 1.7 years compared to 1994. Saxon focuses on developing long-term reserves to maximize shareholder value.

Finding and Development Costs

The Company's finding and development costs for 1995 decreased from 1994 levels, due primarily to reduced acquisition levels offset by increased onstream costs associated with bringing proved reserves on production. The reserve additions of proved and probable used in the finding costs calculations are comprised of acquisitions, discoveries and revisions. Disposals are not included in these calculations.

Finding and Development Costs

	3 Yr. Average	**1995**	1994	1993
Capitalized Costs *(thousands)*				
Finding and acquisition	13,085	**6,741**	22,472	10,038
On stream	1,375	**1,345**	1,939	841
	14,460	**8,086**	24,411	10,879
Reserve Additions *(MBOE)*				
Proved	2,708	**1,278**	3,628	3,218
Probable	1,003	**108**	2,308	592
	3,711	**1,386**	5,936	3,810
Finding Costs *($ per BOE)*				
Proved	4.83	**5.28**	6.19	3.12
Proved and probable	3.52	**4.87**	3.79	2.63
On Stream				
Proved	0.51	**1.05**	0.53	0.26
Proved and probable	0.37	**0.97**	0.33	0.22
Finding and Onstream				
Proved	5.34	**6.33**	6.72	3.38
Proved and probable	3.90	**5.83**	4.12	2.85

Production

Saxon's average daily production for 1995 was 2,163 BOE/d, compared to 1,732 BOE/d for 1994, an increase of approximately 25%. Oil production averaged 1,379 Bbls/d compared to 1,018 Bbls/d in 1994. Natural gas production averaged 7,838 Mcf/d versus 7,143 Mcf/d in 1994. The Company is forecasting oil and gas production of 1,800 Bbls/d and 8,000 Mcf/d respectively for 1996. This translates to 2,600 BOE/d, an increase of approximately 20%.

Producing Properties

The following tables summarize the average daily net production of the Company's producing properties.

Crude Oil and NGL Production

(Bbls/d)	**1995**	1994	1993	1992	1991
Pembina, Alberta	**637**	491	196	—	—
Bigoray, Alberta	**297**	124	—	—	—
Swalwell, Alberta *	**47**	44	51	45	—
Eagle Lake, Saskatchewan	**114**	99	47	30	25
Other	**284**	260	140	166	166
Total	**1,379**	1018	434	241	191

Natural Gas Production

(Mcf/d)	**1995**	1994	1993	1992	1991
Pembina, Alberta	**633**	686	463	—	—
Bigoray, Alberta	**3,214**	1,803	—	—	—
Kaybob South, Alberta	**1,605**	569	—	—	—
Swalwell, Alberta *	**1,453**	3,234	1,344	529	—
Other	**933**	851	626	911	926
Total	**7,838**	7,143	2,433	1,440	926

* *Sold effective September 30, 1995.*

On a BOE basis, the percentage of production contributed by each core project area in December, 1995 was as follows:

December 1995 Daily Production

	Oil & NGLs Bbls	Natural Gas Mcf	BOE	% of Total Production
Pembina, Alberta	607	608	668	38
Bigoray, Alberta	255	2,971	552	31
Kaybob South, Alberta	9	1,372	146	8
Eagle Lake, Saskatchewan	110	37	114	6
Other	218	807	299	17
Total	1,199	5,795	1779	100

Oil and Natural Gas Marketing

Saxon operates approximately 60% of its oil and liquids production. In cases where a partner operates oil production, Saxon generally takes its share of production 'in kind', thus exercising direct marketing control in both operated and non-operated oil properties. The Company's production is medium to light gravity crude and is sold via marketing firms to refiners.

Until 1995, virtually all of the Company's oil production was subject to long term, prepaid forward sale contracts or commodity hedges which locked prices in the range of $17.38 to $23.10 per barrel. Saxon began 1995 using prepaid forward sale contracts to hedge its exposure, and ended the year using hedge contracts but without the prepaid contracts. The Company has an oil contract for a significant portion of its production which receives the average of the highest three Edmonton postings.

Until 1995, Saxon marketed its natural gas production through a mix of long term prepaid contracts, long term contracts and spot market contracts. In 1995, as with oil, the Company ceased using prepaid contracts, and now uses a mix of long term and spot market contracts.

Forecast for 1996

Saxon plans on expenditures totaling $11.5 million of which $1.0 million is budgeted for exploration, $7.9 million for development and $2.6 million for acquisitions. Production is forecast to be 1,800 Bbls/d of oil and natural gas liquids and 8.0 MMcf/d of natural gas. Cash flow is expected to be $9.0 million or $0.10 per share, based on the benchmark WTI price for oil of $18.00 US per barrel translating to a wellhead price of $22.16, and an average natural gas price of $1.25/Mcf at the plant gate.

Overview

The following discussion is management's opinion of Saxon's historical financial and operating results, as well as estimates of future financial and operating performance based upon information available at the time. Actual results will vary from the estimates and the variations may be significant.

Saxon achieved modest growth in 1995, the result of constrained capital and reduced gas prices. The completion of the Forest Oil Corporation transaction in December 1995 has provided liquidity that will significantly enhance Saxon's opportunities for 1996.

1995 Financial and Operations Highlights

- production revenue increased 11% to $14.0 million
- cash flow from operations increased 7% to $5.6 million from $5.2 million
- net income declined to $0.2 million from $1.1 million
- Shareholders' equity increased by 265% to $43.1 million, the result of the Forest Oil Corporation transaction
- proforma funded debt to cashflow ratio decreased to 1.3 from 4.0

1995 Financial and Operations Highlights

($ thousands, except per share amounts)	**1995**	1994	1993
Petroleum and natural gas sales	**14,013**	12,545	4,929
Cash flow from operations	**5,553**	5,170	1,378
Per share (basic)	**0.13**	0.15	0.05
Per share (fully diluted)	**0.10**	0.12	0.05
Net income	**24**	1,129	163
Per share (basic and fully diluted)	**—**	0.03	0.01
Capital expenditures	**5,847**	22,297	10,822
Long term obligations	**22,081**	15,275	5,030
Shareholders' equity	**43,126**	11,810	7,014
Net asset value	**61,659**	31,293	20,339
Per share fully diluted	**0.50**	0.63	0.56
Market capitalization (including preferred shares)	**67,140**	22,014	14,052

Results of Operations and Detailed Financial Analysis

Oil and NGL production levels increased 35% to an average of 1,379 BOPD during 1995 as compared to 1,018 BOPD in 1994. Prices for oil decreased from $20.75 to $19.49. The net result was that volumes in 1995 had a positive impact on revenue of $2,732,000 while price had a corresponding negative impact of $634,000. Natural gas production levels increased in 1995 from 7,143 Mcf/d to 7,838 Mcf/d, a 10% increase. Prices for natural gas in 1995 were depressed in the industry; the impact on Saxon's revenues was a $1,212,000 reduction. The price realized for natural gas fell from $1.89/Mcf to $1.47/Mcf, less than some of the industry competition.

Oil & Gas Revenues

($ thousands)	**1995**	1994	1993
Oil & NGL's	**9,809**	7,710	3,157
Natural gas	**4,204**	4,835	1,772
Total	**14,013**	12,545	4,929

Oil & Gas Volumes

	1995	1994	1993
Oil & NGL's (BOPD)	**1,379**	1,018	434
Natural gas (Mcf/d)	**7,838**	7,143	2,433
Total BOE/d	**2,163**	1,732	677
Total BOE (000s)	**789**	632	247

Oil & Gas Price

($)	**1995**	1994	1993
Oil & NGL's (per Bbl)	**19.49**	20.75	19.70
Natural gas (per Mcf)	**1.47**	1.89	1.99
Per BOE	**17.75**	20.00	19.94

Revenue Analysis

($ thousands)	
1994 Oil & Gas Revenues	12,545
Changes in revenue due to	
Increase/decrease in oil and NGL volumes	2,732
Increase/decrease in natural gas volumes	479
Increase/decrease in oil and NGL price	(531)
Increase/decrease in natural gas price	(1,212)
1995 Oil & Gas Revenues	**14,013**

Royalties

Royalties, which include Crown, ARTC, freehold and overrides paid on oil and gas production, increased 6% to $1.8 million in 1995. Saxon's overall royalty rate decreased in absolute terms to $2.27/BOE in 1995 from $2.68/BOE in 1994, while as a percentage of revenue, royalties remained at 13% for the two years.

Changes made by the Alberta government in January 1995 to the method of calculation of the Alberta Royalty Tax Credit (ARTC) did not adversely affect the Company. The ARTC increased by 50% to $407,000 in 1995 from $273,000 in 1994. This increase is primarily the result of higher production on Crown lands. Since substantially all exploration and development activities are located in Alberta, the effective royalty rate net of ARTC will likely remain low in 1996.

($ thousands)	**1995**	1994	1993
Crown	**1,694**	1,562	449
ARTC	**(407)**	(273)	(77)
Freehold	**506**	407	157
	1,793	1,696	529
% of sales	**13**	13	11

Operating Expenses

Total operating expenses increased to $5.9 million from $4.1 million in 1994. On a BOE basis, operating costs increased to $7.42 from $6.56 in 1994. This increase reflects higher third party processing and transportation fees on gas in Bigoray and Kaybob South, equipment rentals on Nipisi while the wells remained shut-in, and higher chemical costs in Pembina. As a percentage of sales, operating costs rose to 42% in 1995 from 33% in 1994. This is attributable to lower gas prices combined with higher operating expenses. For 1996, management anticipates that operating expenses will increase on an overall basis, the result of increased activity levels. On a per unit basis, operating expenses will likely decline as a result of increased production.

	1995	1994	1993
Operating costs ($000's)	**5,855**	4,145	2,239
Per BOE ($)	**7.42**	6.56	9.06
% of sales	**42**	33	45

Netbacks

Netbacks decreased in 1995 to $9.42 from the 1994 level of $10.76. This decrease reflects the higher operating costs and lower natural gas prices in 1995 offset by a $1.36 prepaid gain. For 1996, management anticipates that netbacks will increase as the result of increased commodity prices and declining per unit operating costs.

($) BOE	**1995**	1994	1993
Oil and gas sales	**17.75**	20.00	19.94
Prepaid gain	**1.36**	—	—
Royalties	**(2.79)**	(3.11)	(2.45)
ARTC	**0.52**	0.43	0.31
Operating expenses	**(7.42)**	(6.56)	(9.06)
Netback	**9.42**	10.76	8.74

General and Administrative

Gross general and administrative expenses increased in 1995, the result of additional geological, engineering and office staff. On a BOE basis, the 1995 G&A rate declined 13% to $1.51 from $1.74 in 1994. In 1995, Saxon capitalized approximately 37% of total G&A spending. For 1996, G&A levels are expected to increase as additional staff and facility requirements will impact costs; however, increasing production levels should result in a continuing decline in G&A costs per BOE.

($ thousands)	**1995**	1994	1993
Gross G&A	**1,886**	1,577	950
Capitalized G&A	**(695)**	(475)	(403)
Net G&A expense	**1,191**	1,102	547
Per BOE ($)	**1.51**	1.74	2.21
% of sales	**8**	9	11

Interest and Financing Costs

Saxon experienced significantly higher interest and financing costs in 1995 as compared to 1994. On September 1, 1995, Saxon's prepaid forward sale delivery obligations were reduced to nil. Saxon returned previously received prepaid forward sale proceeds of $15.9 million in settlement of the amended obligations. The repayment of the prepaid forward sale contract proceeds was financed with a revolving production loan resulting in additional long term interest expense in 1995. In 1994 and the first eight months of 1995, the Company had notional interest expense arising from the prepaid forward sale contracts netted in oil and gas revenues. Also, in 1995 the Company used long term financing during the second and third quarters to fund cash requirements. In 1996, interest expense is likely to decrease because cash realized from the sale of the Forest Oil marketable securities was applied against interest bearing debt on January 31, 1996.

($ thousands)	**1995**	1994	1993
Interest on long term debt	**946**	106	147
Interest on short term debt	**52**	379	84
Deferred charges amortization	**51**	—	13
	1,049	485	244

Depletion and Depreciation

Depletion and depreciation increased in 1995 to $4.5 million, an increase of 20% from $3.8 million in 1994. This increase is attributed principally to flat reserves growth in 1995 combined with increased production levels. Depletion and depreciation per BOE decreased 4% in 1995 to $5.70 from $5.94 in 1994. In 1996, the Company expects depletion and depreciation per BOE will continue to decline as the result of increased reserves.

	1995	1994	1993
Depletion and depreciation ($000's)	**4,502**	3,757	775
Depletion and depreciation per BOE($)	**5.70**	5.94	3.14
Depletion rate (%)	**11**	10	5

Income Taxes

Saxon deferred all income taxes in 1995, consistent with 1994. The only current tax payable is a $127,146 capital tax obligation. Saxon's statutory income tax rate is approximately 44%; however the Company's effective tax rate is approximately 94%, the result of capital taxes and non-deductible depletion and depreciation. In 1996, we anticipate that the effective tax rate will decrease as the result of reduced per unit costs of non-deductible depletion and capital taxes.

Tax Pools at December 31, 1995

($ thousands)	
Canadian exploration expense	1,001
Canadian development expense	9,118
Canadian oil and gas property expense	11,479
Undepreciated capital cost	5,947
Financing costs	1,002
Non-capital losses	1,836

Cash Flow and Net Income

Saxon realized an increase in overall cash flow in 1995 to $5.6 million from $5.2 million in 1994, the result of increased production revenues and the prepaid gain offset by higher operating and interest costs. Cash flow on a per share basis decreased to $0.13 per share in 1995 from $0.15 per share in 1994, the result of an increase in the weighted average number of shares outstanding due to the Forest Oil transaction as well as flow-through share issuances in June 1994 and December 1994.

Net income in 1995 was $23,560 compared to $1,129,267 in 1994. The decrease in net income is attributable to a number of factors, including increased depletion and depreciation charges and increased income tax charges due to higher effective tax rates arising from the impact of non-tax base assets.

In 1996, cash flow is forecast at $9.0 million, with cash flow per share at $0.10. This forecast is based on a benchmark WTI price for oil of $18.00 US, translating to a wellhead price of $22.16, and a price of $1.25/Mcf at the plant gate for natural gas. Volumes for 1996 are forecast at 1,800 BOPD of oil and 8,000 Mcf/d of gas.

Investment

As part of the transaction with Forest Oil Corporation, the Company acquired $17,168,679 of redeemable and retractable 3% Preferred shares of Archean Energy Ltd., ("Archean") a private Canadian oil and gas company. These shares are retractable at any time at the option of Archean and are redeemable on September 30, 1998. The governance of Archean is determined by the terms of a Unanimous Shareholder Agreement. The investment is recorded at $15,000,000 which yields an annualized return to Saxon of 8%. The redemption of the Preferred shares may provide Saxon with substantial additional liquidity in 1998.

Capital Expenditures

Saxon's 1995 capital program of $8.1 million was 33% of the 1994 capital program of $24.4 million. In 1995, the Company made no acquisitions compared with $14.5 million of acquisitions in 1994. Capital expenditures in 1995 were focused on drilling and equipment in core areas. Saxon divested the Swalwell property effective September 30, 1995 for proceeds of $2.2 million.

($ thousands)	**1995**	1994	1993
Capital Expenditures			
Drilling and completions	**6,070**	7,468	1,847
Well equipment and facilities	**1,341**	1,939	841
Property acquisitions	—	14,529	7,788
Capitalized G&A	**675**	475	403
	8,086	24,411	10,879
Property dispositions	**(2,239)**	(2,114)	(57)
Net Capital Expenditures	**5,847**	22,297	10,822

Net Asset Value Per Share

Saxon's net asset value per share decreased 21% in 1995 from 1994 levels, the result of dilution of the stock arising from the Forest Oil transaction as well as capital constraints. In 1996, net asset value is expected to rise due to increased activity levels made possible by the Forest Oil transaction.

($ thousands except per share)	**1995**	1994	1993
Reserves, risked and discounted at 15% before tax	**46,077**	44,930	27,164
Undeveloped land	**1,133**	1,051	—
Investment	**15,000**	—	—
Long term debt	**(22,544)**	(54)	—
Prepaid contracts	—	(16,921)	(6,673)
Working capital (deficiency)	**14,677**	(1,202)	(998)
Cash on exercise of stock options	**7,316**	3,489	846
Net asset value	**61,659**	31,293	20,339
Shares outstanding at Dec. 31 (thousands) fully diluted	**124,573**	49,720	36,582
Net asset value per share fully diluted ($)	**0.50**	0.63	0.56

Liquidity and Capital Resources

Historically, Saxon was capitalized by a combination of debt, prepaid contracts and shareholders' equity. On September 1, 1995, Saxon restructured its financing by replacing the prepaid forward sale contracts with conventional bank production loans. This resulted in a gain of $1.1 million to Saxon. The new bank facility is a revolving production loan with a borrowing base which requires no fixed payments as compared to the prepaid contracts which required $5.6 million of repayments in 1995. A result of the change was to free-up cash flow for capital reinvestment.

Subsequent to completing this transaction, Saxon was able to resolve its high debt to cash flow ratio by arranging a $31.7 million equity financing with Forest Oil Corporation. After the sale of the marketable securities on January 31, 1996 for $15.2 million, Saxon's proforma debt to equity ratio is 0.2 as compared to 1.8 in 1994 and the funded debt to cash flow ratio is now 1.3. The Company strives to maintain a total funded debt to forecasted annualized cash flow ratio of less than 1.5.

Financing

($ thousands)	Proforma After Sale of Marketable Securities	**1995**	1994	1993
Long term debt	7,323	**22,544**	54	—
Prepaid contracts	—	**—**	20,884	7,579
Deferred income taxes	482	**482**	643	545
	7,805	**23,026**	21,581	8,124
Shareholders' equity	43,126	**43,126**	11,810	7,014
Total financing	50,931	**66,152**	33,391	15,138
Debt to equity	0.2	**0.5**	1.8	1.2
Funded debt to cash flow	1.3	**4.1**	4.0	5.5

Business Risks and Prospects

Saxon is an oil and gas exploration and production company whose business is the acquisition, exploration and development of oil and natural gas. These activities have inherent risks which Saxon strives to minimize.

Price, Exchange Rate and Interest Rate Risk

Saxon operates in an environment where the Company's outputs, oil and natural gas, are commodities subject to supply and demand fundamentals which are outside its control. In order to mitigate potential wide fluctuations in revenues due to varying commodity prices, Saxon used three basic arrangements in 1995: gas sales contracts, prepaid forward sale contracts and commodity hedges. Gas sales contracts are signed with aggregators and/or industrial customers for varying periods of 30 days to 12 months. These contracts provide for the physical delivery of a quantity of gas at either a fixed or variable price with payments monthly.

Prepaid contracts involve advance payment for future delivery of oil and gas. As previously discussed, Saxon terminated its prepaid contracts in September 1995 when the Company was able to realize a gain of $1.1 million by the collapse of the contract and when commodity prices were expected to increase, making the prepaid contracts less attractive.

In January 1996, the Board of Directors set Saxon's current hedging policy. Saxon participates in hedging practices to reduce risk arising from fluctuations in commodity prices, foreign currency and interest rates. Saxon may hedge up to 75% of projected net sales volumes, based on proved producing reserves of natural gas, crude oil and natural gas liquids for the current fiscal year and the two years immediately following. Hedging contracts of a longer time frame are confined to 25% of projected net sales volumes.

Environment and Safety

Saxon is committed to the protection and maintenance of the environment throughout its operations and has adopted a formal environmental policy. The Company recognizes that its field operations have an impact on the local environment and have committed to minimize this impact and to reclaim all areas when operations are completed. Saxon conducts its operations utilizing the Environmental Operating Guidelines for the Alberta Petroleum Industry and the Company is in material compliance with current environmental laws and regulations.

Saxon conducts an environmental audit on all significant acquisitions. In addition, it has designed a formal emergency response plan which details the procedures which employees and contractors will follow in the event of an operations emergency. The program is designed to respond to emergencies in order that the safety of employees, contractors, residents in the vicinity of our field activities, the general public and the environment are protected.

Business Prospects

Forest Oil acquired a controlling interest in Saxon late in 1995 through a series of transactions. The impact on Saxon was not felt in a significant way in the fourth quarter because the transaction was not completed until December 20, 1995. In 1996, Saxon anticipates applying the increased capital arising from the transaction to pursue an increased capital expenditures program while maintaining credit lines for acquisition opportunities. Saxon plans on expenditures totaling $11.5 million of which $1.0 million is budgeted for exploration, $7.9 million for development and $2.6 million for acquisitions. Production is forecast to be 1,800 Bbls/d of oil and natural gas liquids and 8.0 MMcf/d of natural gas. Cash flow is expected to be $9.0 million or $0.10 per share, based on the benchmark WTI price for oil of $18.00 US per barrel translating to a wellhead price of $22.16, and an average natural gas price of $1.25/Mcf at the plant gate.

The following table details the sensitivity of Saxon's forecasted 1996 cash flow and cash flow per share to fluctuations in the prices of crude oil, natural gas, interest rates and to the $US/$Cdn exchange rate.

($ thousands except $/share)	Cash Flow	Cash Flow per Fully Diluted Share
Change of $1.00 US per barrel in the price of WTI crude oil	781	$ 0.006
Change in crude oil production of 100 Bbls/d	467	$ 0.005
Change of $0.10 per Mcf in the price of natural gas	205	$ 0.002
Change in natural gas production of 1 MMcf/d	149	$ 0.001
Change of $0.01 in the $US/$Cdn exchange rate	209	$ 0.002
Change of 1% in the prime rate of interest	114	$ 0.001

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Saxon Petroleum Inc. and all information in the annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and have been prepared within acceptable levels of materiality. The financial statements necessarily include amounts that are based on estimates, which have been objectively developed by management using all relevant information. Financial and operating data elsewhere in the annual report are consistent with the information contained in the financial statements.

Management maintains appropriate accounting and internal control systems. Corporate policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or misuse and financial records and other information are properly maintained to provide reliable information for preparation of financial statements.

The Board of Directors appoints an Audit Committee annually made up of a majority of outside directors. The Audit Committee meets periodically with management and with the Company's external auditors to discuss the results of audit examinations and to review issues related thereto. The Company's auditors have full access to the Audit Committee, with and without the presence of management.

G A Tarrant

Glen A. Tarrant
President and
Chief Executive Officer
April 10, 1996

William A. Brebber
Chief Financial Officer
and Treasurer

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Saxon Petroleum Inc. as at December 31, 1995 and 1994 and the consolidated statements of income and retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1995 and 1994 and the results of its operations and the changes in its cash flow for the years then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Chartered Accountants
Calgary, Canada
February 16, 1996

Consolidated Balance Sheets

December 31	1995	1994
Assets		
Current		
Cash and deposits	$ 66,813	$ 1,602,466
Marketable securities *(notes 2 and 10)*	15,220,779	—
Accounts receivable	1,723,010	1,397,859
Prepaid expenses	237,477	178,563
	17,248,079	3,178,888
Investment *(note 2)*	15,000,000	—
Deferred charges	833,115	—
Property, plant and equipment *(note 3)*	36,092,324	34,747,731
Total Assets	$ 69,173,518	$ 37,926,619
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 2,571,410	$ 4,381,189
Current portion of long term debt *(note 4)*	462,568	16,627
Current portion of prepaid contracts	—	5,645,269
	3,033,978	10,043,085
Long term debt *(note 4)*	22,081,333	37,623
Prepaid contracts *(note 5)*	—	15,237,727
Provision for future site restoration	449,900	154,900
Deferred income taxes	482,184	643,229
	26,047,395	26,116,564
Shareholders' Equity		
Share capital *(note 6)*	41,723,217	10,364,959
Retained earnings	1,402,906	1,445,096
	43,126,123	11,810,055
Total Liabilities and Shareholders' Equity	$ 69,173,518	$ 37,926,619

See accompanying notes.

On behalf of the Board:

Martha G. Billes
Director

Glen A. Tarrant
Director

Consolidated Statements of Income and Retained Earnings

Years ended December 31	1995	1994
Revenue		
Petroleum and natural gas sales	$ 14,012,599	$ 12,545,411
Gain on prepaid contracts *(note 5)*	1,076,113	—
Royalties	(2,200,347)	(1,968,740)
Alberta royalty tax credit	407,248	272,976
	13,295,613	10,849,647
Expenses		
Operating	5,854,566	4,145,412
General and administrative	1,190,527	1,101,625
Depletion and depreciation	4,797,375	3,837,013
Interest and financing *(note 4)*	1,048,685	485,232
	12,891,153	9,569,282
Income before income taxes	404,460	1,280,365
Income taxes - *(note 7)*	380,900	151,098
Net Income	23,560	1,129,267
Retained Earnings, beginning of year	1,445,096	315,829
Dividends	(65,750)	—
Retained Earnings, end of year	$ 1,402,906	$ 1,445,096
Earnings per Share		
Basic	$ —	$ 0.03
Fully diluted	$ —	$ 0.03

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended December 31	1995	1994
Cash provided by (used in)		
Operating		
Net income	$ 23,560	$ 1,129,267
Items not involving a current cash flow	5,528,946	4,041,221
Cash flow	5,552,506	5,170,488
Changes in non-cash working capital	(384,065)	5,520
Cash flow after changes in non-cash working capital	5,168,441	5,176,008
Financing		
Proceeds from prepaid contracts	—	16,578,825
Repayment of prepaid contracts	(21,309,376)	(3,376,862)
Dividends	(65,750)	—
Issue of shares	33,943,460	3,666,428
Redemption of Series B Preferred shares	(3,000,000)	—
Proceeds from long term debt	31,000,000	55,350
Repayment of long term debt	(8,510,349)	(1,100)
Deferred charges	(884,553)	—
	31,173,432	16,922,641
Investing		
Capital expenditures		
Exploration, development and corporate	(8,085,958)	(24,411,184)
Proceeds on disposition of assets	2,238,990	2,114,399
Investments	(15,000,000)	—
Changes in non-cash working capital	(17,030,558)	1,232,305
	(37,877,526)	(21,064,480)
Net Increase (Decrease) in Cash	(1,535,653)	1,034,169
Cash and deposits, beginning of year	1,602,466	568,297
Cash and Deposits, end of year	$ 66,813	$ 1,602,466
Cash Flow per Share		
Basic	$ 0.13	$ 0.15
Fully diluted	$ 0.10	$ 0.12

See accompanying notes.

Note 1

Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of Saxon Petroleum Inc. and its wholly-owned subsidiary.

Substantially all of the exploration and production activities of the Company are conducted jointly with other non-affiliated companies and accordingly the consolidated accounts reflect only the Company's proportionate interest in such activities.

(b) Petroleum and natural gas properties

The full cost method of accounting is followed for petroleum and natural gas properties whereby all costs relating to the acquisition of, exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisitions, geological and geophysical activities, lease rentals on undeveloped properties, the drilling of productive and non-productive wells, and directly related overhead charges.

Costs are accumulated in one cost centre representing activity in Canada. Total capitalized costs plus a provision for future development costs of proved undeveloped reserves are depleted and depreciated using the unit-of-production method, based on estimated proved oil and gas reserves (before royalties) as determined by independent engineers. For purposes of the depletion and depreciation calculation, proved oil and gas reserves and production volumes (before royalties) are converted to a common unit of measure on the basis of their approximate relative energy content. Depreciation of gas plants is charged to income on a declining balance basis at an annual rate of four percent.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized unless the sale would significantly alter the rate of depletion and depreciation.

The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test (the "ceiling test"). Under this test, an estimate is made of the ultimate recoverable amount from future net revenues using proved reserves and year end prices, plus the net costs of major development projects and unproved properties less future removal and site restoration costs, overhead, financing costs, and income taxes. If the net carrying costs exceed the ultimate recoverable amount, additional depletion and depreciation is provided.

(c) Future abandonment and site restoration costs

Estimated future abandonment and site restoration costs are provided for over the life of the proved reserves on a unit-of-production basis. Costs are estimated each year by management in consideration with the Company's engineer based on current regulations, costs, technology and industry standards. The annual charge is included in depletion and depreciation expense and actual abandonment and site restoration expenditures are charged to the accumulated provision account as incurred.

(d) Prepaid contracts

Advance payments received under prepaid contracts for oil and gas which is not delivered are deferred and are recognized as revenue when deliveries are made. Revenue is recognized on a straight line basis by dividing the advance payment by the total contracted volumes.

Prepaid contract costs incurred in the course of entering into the prepaid contracts are deferred. Charges are provided for on the unit of delivery basis and are included in oil and gas revenues.

(e) Earnings per share

Basic earnings per share and basic cash flow from operations per share have been calculated using the weighted average number of common and non-voting shares outstanding during the year.

(f) Hedging

The Company periodically enters into contracts to reduce its exposure to price declines on a portion of its oil and natural gas production. Gains or losses on these contracts are reported as adjustments to revenue in the related production month.

(g) Deferred charges

Deferred charges incurred in the course of securing long term debt are deferred and amortized, on a straight line basis, over the anticipated term of the debt.

(h) Comparative amounts

Certain comparative amounts have been reclassified to conform to the current year's presentation.

Note 2

Significant Transaction

Forest Oil Corporation ("Forest") acquired a controlling interest in the Company through a series of transactions occurring on October 25, 1995 and December 20, 1995. The Company received a total of $31,720,759 composed of $1,500,000 cash, $15,220,759 marketable securities (note 10), and a $15,000,000 investment in the preferred shares of a Canadian private oil and gas company in exchange for 40,800,000 common shares, 12,300,000 Non-Voting shares and 15,500,000 Series A Preferred shares (note 6).

Note 3

Property, Plant and Equipment

	Cost	Accumulated Depletion and Depreciation	Net Book Value
December 31, 1995			
Petroleum and natural gas rights	**$ 35,743,577**	**$ 8,414,235**	**$ 27,329,342**
Production equipment	**10,685,423**	**2,138,420**	**8,547,003**
Furniture and fixtures	**288,036**	**72,057**	**215,979**
	$ 46,717,036	**$ 10,624,712**	**$ 36,092,324**
December 31, 1994			
Petroleum and natural gas rights	$ 30,865,536	$ 4,714,235	$ 26,151,301
Production equipment	9,846,073	1,377,195	8,468,878
Furniture and fixtures	158,555	31,003	127,552
	$ 40,870,164	$ 6,122,433	$ 34,747,731

During the year ended December 31, 1995, overhead charges relating to acquisition, development and exploration activities of $695,000 (1994 - $475,299) were capitalized.

Petroleum and natural gas properties with a net book value of $3,700,000 (1994 - $3,800,000) have no cost base for income tax purposes.

The annual future abandonment and site restoration charge amounted to $295,000 (1994 - $80,000) and was recorded as additional depletion and depreciation expense. In calculating the depletion provision for the year ended December 31, 1995, $366,545 (1994 - $152,000) of costs relating to unproved properties were excluded from costs subject to depletion.

Note 4

Long Term Debt

	1995	1994
Demand Revolving Operating Loan	**$ 928,566**	$ —
Demand Revolving Production Loan	**14,000,000**	—
Bridge loan	**7,500,000**	—
Capitalized leases	**115,335**	54,250
	22,543,901	54,250
Amounts Due Within One Year, Included in Current Liabilities	**462,568**	16,627
	$ 22,081,333	$ 37,623

The operating loan facility is revolving in nature with a borrowing base of $2 million. Advances made under this facility bear interest at the bank prime rate and are secured by a fixed and floating charge debenture and a general assignment of book debts. The loan is subject to semi-annual review and has a demand feature; however, repayments are not required provided that borrowings are not in excess of the borrowing base and the Company complies with other existing covenants.

The production loan facility is revolving in nature with a borrowing base of $20 million. Advances made under this facility bear interest at the bank prime rate or the bankers acceptance rate plus a stamping fee at the option of the Company and are secured by a fixed and floating charge debenture and a general assignment of book debts. The loan is subject to semi-annual review and has a demand feature; however, repayments are not required provided that borrowings are not in excess of the borrowing base and the Company complies with other existing covenants.

The bridge loan is a term loan due December 18, 1996. The loan bears interest at the bank prime rate plus 1 1/2% and is secured by the Company's marketable securities and its investments.

At December 31, 1995 $51,438 of deferred charges have been amortized and included in interest and financing expense.

Note 5

Prepaid Contracts

During 1993 and 1994 the Company entered into a series of prepaid forward sale contracts for future delivery of oil and natural gas covering varying periods of one to seven years. Effective September 1, 1995 the Company's scheduled forward sale delivery obligations of oil and natural gas were reduced to nil as the result of an amendment to the previous prepaid forward sale contracts. The Company returned prepaid forward sale proceeds of $15.9 million in settlement of the amended obligations. The Company has recorded a gain of $1,076,113 after deduction of $343,096 of prepaid contract costs.

Note 6

Share Capital

Authorized:

The authorized share capital consists of an unlimited number of common, an unlimited number of Non-Voting shares and an unlimited number of preferred shares issuable in series.

Issued:

	1995		1994	
	Shares	**Amount**	Shares	Amount
Common Shares				
Balance, beginning of year	**41,535,581**	**$ 10,364,959**	33,457,192	$ 6,698,531
Exercise of employee options	**40,000**	**16,000**	175,000	26,250
Issued in exchange for marketable securities	**36,649,474**	**11,334,351**	—	—
Issued in exchange for Series B Preferred shares	**4,150,526**	**1,500,000**	—	—
Exercise of syndicated loan options	—	—	100,000	50,000
Issued pursuant to private flow-through offering	—	—	3,003,500	1,892,100
Issued pursuant to Rights Offering	—	—	4,400,175	2,464,101
Issued for oil and gas properties	—	—	425,714	252,857
Purchased for cancellation	—	—	(26,000)	—
Tax benefits renounced	—	—	—	(851,445)
Share issue costs	—	**(145,334)**	—	(167,435)
	82,375,581	**$ 23,069,976**	41,535,581	$ 10,364,959
Non-Voting Shares				
Balance, beginning of year	—	—	—	—
Issued in exchange for marketable securities	**12,300,000**	**$ 3,821,016**	—	—
Issued in satisfaction of Series B Preferred share dividend	**123,812**	**45,600**	—	—
Share issue costs	—	**(43,730)**	—	—
	12,423,812	**$ 3,822,886**	—	—
Series A Preferred Shares				
Balance, beginning of year	—	—	—	—
Issued in exchange for investments	**15,500,000**	**$ 15,000,000**	—	—
Share issue costs	—	**(169,645)**	—	—
	15,500,000	**$ 14,830,355**	—	—
Total Share Capital, end of year		**$ 41,723,217**		$ 10,364,959

The Non-Voting shares rank equally with the common shares as to dividends and other distributions. Each issued and fully paid Non-Voting share may at any time, at the option of the holder, be converted into one common share.

The Series A Preferred shares are entitled to a 4% cumulative dividend payable in common or Non-Voting shares, at the option of the holder. Dividends are payable quarterly. The shares are to be redeemed on November 15, 1998 for the sum of $1.00 per share. The redemption price may be paid in cash or, at the option of the Company, in common shares valued at 85% of the weighted average market price during the preceding 60 days. The shares are convertible into common shares or Non-Voting shares, at the option of the holder, at any time at a conversion price of $0.57 per common share. Should the common shares trade for a period exceeding 30 consecutive trading days in excess of $0.70 the Company may require conversion of the Series A Preferred shares into common shares. The Series A Preferred shares are non-voting except should the Company fail to redeem such shares within the time provided and as long as such shares remain outstanding, the holders are entitled, voting separately as a class, to elect a majority of the board of directors.

In conjunction with the Significant Transaction (note 2), $3,000,000 Series B Preferred shares were issued for cash on October 25, 1995 and subsequently redeemed on December 20, 1995 for $1,500,000 cash and 4,150,526 common shares.

Share issue costs are net of related deferred income taxes of $414,798 (1994 - nil).

Options/Warrants	**Number Outstanding at December 31, 1995**	**Exercise Price**	**Expiry Date**
Employee Options	3,742,000	$ 0.15 - $ 0.48	September 16, 1997 to October 12, 2000
Syndicated loan options	3,900,000	$ 0.50	January 27, 1997 to February 22, 1997
Term loan options	562,500	$ 0.75	December 31, 1996
Demand loan options	500,000	$ 0.65	June 13, 1998
Bank credit agreement options	1,000,000	$ 0.50	September 6, 1997
Warrants	5,300,000	$ 0.55	December 20, 1998
	15,004,500		

The Company has granted the right to Forest Oil Corporation to acquire a maximum of 60% of any future offering of equity securities (Equity Participation Agreement). Forest Oil Corporation's right to participate is subject to the Company receiving the same value as it receives from a third party. Forest Oil Corporation may make payment for the equity securities in cash or, subject to certain conditions, in common shares of Forest Oil Corporation. The Equity Participation Agreement terminates on December 20, 2000.

Note 7

Income Taxes

Income tax expense differs from the amounts which would be obtained by applying the statutory income tax rate to the respective years before tax income. The following explains the differences between expected taxes and actual taxes.

		1995		1994
Income before income taxes	$	**404,460**	$	1,280,365
Statutory income tax rate		**44.6%**		44.3%
Expected income tax expense	$	**180,308**	$	567,717
Add (deduct) the tax effect of:				
Non-deductible Crown royalties		**755,134**		646,930
Alberta royalty tax credit		**(181,551)**		(121,038)
Resource allowance		**(705,139)**		(727,737)
Non-deductible depletion and depreciation		**232,759**		143,917
Non-taxable income		**—**		(243,507)
Other		**(27,757)**		(164,584)
Deferred income taxes		**253,754**		101,698
Capital taxes		**127,146**		49,400
Income taxes	$	**380,900**	$	151,098

Note 8

Related Party Transactions

There were no related party transactions during the year ended December 31, 1995.

During the year ended December 31, 1994 the Company received $400,000 of the total $2,000,000 syndicated loan from officers and directors. The syndicated loan was retired with prepaid contract proceeds in June, 1994. Also during 1994 officers and directors subscribed for flow-through shares in the amount of $359,050. The loans and flow-through shares were received on the same terms and conditions as third parties.

Note 9

Commitments

Future lease payments under operating leases and office leases are as follows:

1996	$	46,416
1997	$	40,554
1998	$	26,832
1999	$	17,418

Note 10

Subsequent Events

On January 31, 1996 the Company completed the sale of all of the marketable securities for net proceeds for $15,220,759. The net proceeds were applied to long term debt.

Five Year Historical Summary

($ thousands, except per share)	**1995**	1994	1993	1992	1991
Financial					
Current assets	**17,248**	3,179	1,888	339	249
Current liabilities	**(2,571)**	(4,381)	(2,886)	(371)	(259)
Working capital [(1)]	**14,677**	(1,202)	(998)	(32)	(10)
Property, plant and equipment	**36,092**	34,748	16,211	6,164	3,109
Investment	**15,000**	—	—	—	—
Provision for future site restoration	**(450)**	(155)	(75)	(37)	(21)
Capital employed	**65,319**	33,391	15,138	6,095	3,078
Long term obligations [(1)(2)]	**21,711**	20,938	7,579	2,096	1,599
Deferred income taxes	**482**	643	545	156	75
Shareholders' equity	**43,126**	11,810	7,014	3,843	1,404
Financing sources	**65,319**	33,391	15,138	6,095	3,078
Revenue (net of royalties)	**13,296**	10,850	4,400	1,989	1,465
Expenses	**12,891**	9,570	3,843	1,819	1,359
Income before taxes	**405**	1,280	557	170	106
Income taxes	**381**	151	393	81	53
Net income	**24**	1,129	164	89	53
Cash flow from operations	**5,553**	5,170	1,378	515	304
Capital expenditures	**5,847**	22,297	10,822	3,396	2,587
Per common share (basic)					
Net income	**—**	0.03	0.01	0.01	—
Cash flow from operations	**0.13**	0.15	0.05	0.03	0.04
Operations					
Product sales					
Oil (BOPD)	**1,379**	1,018	434	241	191
Natural gas (Mcf/d)	**7,838**	7,143	2,433	1,440	926
BOE (per day)	**2,163**	1,732	677	385	284
Product prices					
Oil ($/Bbl)	**19.49**	20.75	19.70	19.26	16.80
Natural gas ($/Mcf)	**1.47**	1.89	1.99	1.40	0.95
Reserves (proved and probable)					
Crude oil and NGL's (thousands of Bbls)	**7,271**	6,880	3,541	967	842
Natural gas (MMcf)	**25,450**	33,199	16,728	6,853	2,333

(1) Excludes current portion of long term obligations which is included in financing sources as a long term obligation.

(2) Net of deferred charges.

Shareholder Information

Board of Directors

Hugh J. Davis
Chairman of the Board
Calgary, Alberta

Bulent (Bill) A. Berilgen
Director
Denver, Colorado

Martha G. Billes
Director
Calgary, Alberta

Robert S. Boswell
Director
Denver, Colorado

David H. Keyte
Director
Denver, Colorado

Glen A. Tarrant
President
Calgary, Alberta

William J. Wylie
Vice President
Calgary, Alberta

Officers

Hugh J. Davis
Chairman of the Board

Glen A. Tarrant
President and Chief Executive Officer

William A. Brebber
Treasurer and Chief Financial Officer

Kenneth T. A. Skea
Vice President - Engineering

Richard A. Wilson, Q.C.
Corporate Secretary

William J. Wylie
Vice President

Solicitors

McCarthy Tetrault
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Calgary, Alberta, T2P 1E5

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Calgary, Alberta, T2P 0M2

Registrar and Transfer Agent

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Exchange Listing

The Alberta Stock Exchange

Stock Symbol

Common Shares: SXN

Printed in Canada on recycled and recyclable papers

Saxon Petroleum Inc.

1995 ANNUAL REPORT

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